

**Financial Services for the Poor – making this aid strategy work**

**SUMMARY:** *On 10 March the Australian Government launched Financial Services for the Poor – A Strategy for the Australian aid program 2010–2015. This is a milestone in the Government’s recognition of the role of microfinance and financial inclusion in achieving the Millennium Development Goals (MDGs). RESULTS Australia has advocated the adoption of such a strategy for several years. This month our action will request that Parliamentarians welcome the release of the Strategy and ask the Parliamentary Secretary and Minister for Foreign Affairs to support increased funding to implement the Strategy, an increased focus on the poorest people and more specific measures of performance of microfinance a.*

**BACKGROUND: WHAT IS ‘FINANCIAL INCLUSION’ AND WHY IS IT IMPORTANT?**

*“In a world driven by the cash economy and international flows of capital, the majority of poor people still remain excluded from financial services.”* Stephen Smith and Bob McMullan in the Ministerial forward to Financial Services for the Poor – A Strategy for the Australian aid program 2010–2015 (March 2010)

Do you have a credit card, home loan or bank account? Do you bank online or use an ATM? Do you have house, car or additional health insurance? The reality is that ‘in the developing world, 2.7 billion adults (almost three quarters of the adult population) don’t have access to any of these ‘financial services’ due to their poverty, illiteracy, gender or because they live in a remote region. ‘Financial Inclusion’ is the delivery of a range of financial services to the poor and disadvantaged. It includes the provision of fair borrowing, safe saving, relevant and meaningful financial education and appropriate insurance products. A key component of financial inclusion is microfinance. (See Appendix for more detail.)

Microfinance has proven to be a powerful tool to help the world's poorest people to lift themselves out of poverty, and improve their entire family's nutrition, education and housing<sup>1</sup>. A review of around 100 impact studies of microfinance since 1986 found a wide range of evidence that microfinance programs can increase incomes and lift families out of poverty. Access to microfinance can improve children’s nutrition and increase their school enrollment rates, among many other outcomes<sup>2</sup>.

**AUSTRALIAN GOVERNMENT FINANCIAL INCLUSION STRATEGY: 2010-2015**

On 10 March 2010 the Australian Government released its long awaited strategy document, Financial Services for the Poor – A Strategy for the Australian aid program 2010–2015. This strategy, to which RESULTS Australia has provided input at several stages, outlines Australia’s plans to increase access to financial services by the poor in developing countries. The planned outcomes of the Strategy are:

- A policy and regulatory environment that allows institutions offering financial services to the poor to enter the market and grow.

<sup>1</sup> Consultative Group to Assist the Poor (CGAP) focus note No.24 (January 2003): Is microfinance an effective strategy to reach the Millennium Development Goals?

<sup>2</sup> Goldberg, N. (2006), *Measuring the Impact of Microfinance: Taking Stock of What We Know*

- Financial service providers and infrastructure that have the capacity to provide high quality financial services to the poor.
- Innovative models of financial service provisions that are used effectively to extend outreach to underserved regions and groups.
- Increased capacity of clients to understand and utilise financial services effectively.

## IMPLEMENTING AN EFFECTIVE STRATEGY

RESULTS Australia welcomes the release of the Financial Services for the Poor strategy as an important platform for building a stronger role for this sector of the aid program. RESULTS also supports a number of the Strategy's features including: the recognition of the role of microfinance in achieving most of the MDG; the recognition that poorest clients need to be included, and social performance (and not just financial performance) of these institutions will be measured. However, the implementation of the Strategy needs to strengthen the focus on the following areas:

- **Increasing funding:** The media release for the Strategy announced a doubling of annual funding 'to up to \$20 million by 2012-13.' This funding level seems unrealistically low given the Strategy's broad geographic coverage (the Pacific, Asia, Latin America, the Caribbean and Africa) and the broad range of planned outcomes (mentioned above). This funding level is also well below the more appropriate increase RESULTS has been calling for of \$45 million per year by 2011-12, or 1% of total annual aid spending.
- **Reaching the poorest people and measuring impact.** AusAID already provides some support for programs that reach the poorest of the poor (e.g. BRAC in Bangladesh). However, RESULTS recommends that at least 50% of Australia's aid for microfinance target innovative institutions with a commitment to reaching the poorest and that it also assist programs to implement poverty assessments.
- **Regular and specific measures of performance.** Measurement of progress towards achieving the strategy's outcomes will firstly require baseline data on the programs currently being funded. The Strategy will also need to state what numerical targets are being pursued to demonstrate success. (For example, encouraging the entry of a specific number of new microfinance service providers or having a specific number of service providers achieve positive financial and social impacts.)

## ACTION:

**Write to your member of the House of Representatives, or a Senator in your State.**

1. **Welcome** the Government's release of the aid strategy on Financial Services for the Poor. Emphasise that the Strategy provides the opportunity for more consistent and broader support for microfinance initiatives, which are important in increasing incomes and improving health and education for the poor.
2. **Encourage** the Government to set goals for increasing spending on microfinance in implementing the Strategy to \$45 million in 2011-12 (1% of total annual aid spending), and ensure its support for microfinance targets the poorest, and includes specific measures of social performance.
3. **Ask** your Member or Senator to write to the Parliamentary Secretary for International Development Assistance, Bob McMullan MP and the Minister for Foreign Affairs, Stephen Smith MP, calling for them to include these measures in implementing the Strategy. Ask your MP/Senator to provide copies of any responses received from Minister Smith or Mr McMullan.

## APPENDIX

### What is microfinance?

Microfinance provides the poor with access to financial services which are not normally available to them through the mainstream banking system due to their poverty, illiteracy or because they live in remote areas.

Microfinance can include:

- **Small loans** – loans of as little as a few dollars to a few hundred dollars, usually with no collateral, and mainly used to start or expand self-employment ventures. Such ventures include sewing clothes, running food stands, raising pigs, chickens or vegetables, making crafts and operating bicycle rickshaws.
- **Deposit and savings services** - giving the poor a chance to save through small regular deposits can help them to smooth out their income and expense flows over the year and prepare for large expenditures – both planned and unplanned.
- **Insurance products** - health, life and crop or livestock insurance can help reduce the negative financial impacts of illness, death and natural disasters.
- **Money transfer services** – many poor families have one or more family members working away from home. The ability to send money home safely helps families to keep a steady income source year-round.

### A Borrower story...

(From the AusAID website: [www.aisaid.gov.au](http://www.aisaid.gov.au) )

Ms. Nguyen Thi Hoang lives in Ho Chi Minh City in Vietnam. She looks after her elderly parents and three mentally ill brothers. Each day her mother sits in the corner of their slum house peeling cashews to earn money for the family. She makes VN\$4,000 (A\$0.34) for every kg of cashews that she peels. Her mother's cashew peeling is the family's main source of income. That was until Hoang applied for a VN\$2 million (A\$170.00) loan made available through an Australian government microfinance project. Hoang used her loan to buy a sewing machine and now she earns up to VN\$30,000 (about A\$2.50) a day making clothes. She has become the family's breadwinner.

[AusAID provided \$5.7 million to Capital Aid Fund for Employment of the Poor (CEP) from 2001-2008. This enabled CEP to expand from reaching 23,500 clients to 39,000 clients and have 5,000 existing clients increase the size of their loans. CEP is one of Australia's most successful interventions in the area of microfinance. ]

### MORE INFORMATION:

- Financial Services for the Poor – A Strategy for the Australian aid program 2010–2015 (March 2010) [http://www.aisaid.gov.au/publications/pubout.cfm?ID=3645\\_1909\\_4834\\_7583\\_9490](http://www.aisaid.gov.au/publications/pubout.cfm?ID=3645_1909_4834_7583_9490)
- Microfinance Gateway: [www.microfinancegateway.org](http://www.microfinancegateway.org)
- CGAP: [www.cgap.org](http://www.cgap.org)
- Goldberg, N. (2006), *Measuring the Impact of Microfinance: Taking Stock of What We Know*: <http://www.grameenfoundation.org/pubdownload/~pubid=29>
- Microcredit Summit Campaign: [www.microcreditsummit.org](http://www.microcreditsummit.org)

